

**Avista Corp.**  
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November 9, 2001

State of Washington  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, Washington 98504-7250

Attention: Ms. Carole Washburn, Executive Director

RE: Avista Corporation's Petition for Prudence Determination

Enclosed for filing with the Washington Utilities and Transportation Commission are twenty (20) copies of Avista Corporation's Petition and prepared direct testimony and exhibits requesting a determination that Avista's deferred power costs, as of September 30, 2001, were prudently incurred and are recoverable.

The Petition contains a brief description of Avista's proposal and is accompanied by Avista's pre-filed testimony and exhibits. Also enclosed are 3 copies of Company workpapers. Sections of these workpapers are to be treated as CONFIDENTIAL. Those sections have been appropriately marked and separately enclosed. The CONFIDENTIAL information should not be reproduced, provided to other parties or used in any way that would violate confidentiality. To summarize the Petition, Avista is requesting the Commission issue an order, on or before February 18, 2002, with a finding that Avista's deferred power costs of \$198.5 million as of September 30, 2001, were prudently incurred and are recoverable. The timing of the recovery of these costs would be determined in the Company's upcoming general rate case. Avista is not proposing an adjustment to retail rates in this filing. Avista is proposing the scope of this case be limited to the determination of the prudence and recoverability of the actual costs deferred by Avista for the period July 1, 2000 through September 30, 2001.

Avista respectfully requests the Commission expedite the issuance of an order on or before February 18, 2002, for the reasons stated in the petition. Extensive workpapers concerning the deferrals have been supplied to all parties with the filing, in order to expedite discovery and the processing of the case.

Questions regarding this filing should be directed to Mr. Don Falkner at (509) 495-4326.

Sincerely,

Kelly O. Norwood  
Vice President  
Avista Corporation

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of )  
AVISTA Corporation dba Avista Utilities) DOCKET NO. UE-011514  
For an Order Finding Avista's Deferred )  
Power Costs Were Prudently Incurred ) PETITION OF AVISTA CORPORATION  
And Are Recoverable )

**I. INTRODUCTION**

1       The name and address of Petitioner is Avista Corporation doing business as Avista Utilities (hereinafter "Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington. Please direct all correspondence related to this Petition to the following:

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Senior Vice President and General Counsel  
Avista Corp.  
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MSC 13  
Spokane, Washington 99220-3727  
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Vice President  
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**II. AVISTA'S REQUEST**

2       Pursuant to WAC 480-09-420, the Company requests that the Commission establish an expedited procedural schedule, as soon as possible, to address the prudence of \$198.5 million of deferred power costs as of September 30, 2001, and to determine the definitive amount of those costs that will ultimately be allowed for recovery.

3           The original deferral mechanism was approved by the Commission on August 9, 2000, in Docket No. UE-000972. Through the mechanism, Avista was allowed to defer certain increased power supply related costs beginning July 1, 2000, and ending June 30, 2001. In Docket UE-000972, by order dated January 24, 2001, the Commission approved the Company's request to modify the deferred accounting mechanism to include certain other power supply related components and actual system load requirements in the deferral calculation effective December 1, 2000.

4           The Commission's Sixth Supplemental Order, in Docket No. UE-010395 granting a 25% surcharge for the period October 1, 2001, to December 31, 2002, is projected to provide \$71.3 million to offset the deferred power costs. The Commission also approved another \$53.8 million reduction of the deferral balance using the non-cash balance sheet credit associated with the PGE contract monetization benefits, for a total reduction in the deferred costs of \$125 million. However, the recovery of these costs was approved on a "subject to refund" basis, pending the outcome of a prudence filing to be made by the Company.

5           Rating agencies and lenders have already taken actions that reflect their perception of the uncertainty surrounding the recoverability of these costs. The Company is facing new financing challenges, which are being compounded by the unfavorable environment created by these uncertainties, including:

- The \$220 million bank credit line will expire in May 2002.
- The \$125 million accounts receivable financing facility will expire in May 2002.
- Capital expenditures and operations require cash flows to serve customers.
- The Company may issue equity in 2002 to strengthen its balance sheet.

6           The recent downgrades in the Company's credit rating together with continuing concerns by the rating agencies and lenders make it necessary to resolve the uncertainty associated with the deferred costs as soon as possible, to improve the opportunity for the Company to renew credit lines and allow for the possible issuance of equity.

7           Avista is not proposing an adjustment to retail rates in this filing. The Company proposes that the scope of this case be limited to the determination of the prudence of \$198.5 million of actual costs deferred by the Company for the period July 1, 2000 through September 30, 2001. The ratemaking treatment of the prudently incurred costs, including the time period over which the dollars would be recovered, would then be addressed in the general rate case to be filed by December 1, 2001.

8           The Company's actual deferral balance at September 30, 2001 is \$199.7 million. Included in that balance is \$1.2 million associated with natural gas and diesel-fueled small generation projects. The majority of the costs associated with these projects will be recorded subsequent to September 30, 2001. In order to simplify the issues in this case, the Company proposes to address the prudence and recoverability of the costs associated with these projects in the upcoming general rate case. Therefore, the Company is requesting that the Commission issue an order in this proceeding that address the prudence and recoverability of the remaining deferral balance of \$198.5 million. The prudence of the balance of \$1.2 million associated with small generation projects will be addressed in the general rate case. In addition, the prudence and ratemaking treatment of costs deferred under the

existing deferral mechanism subsequent to September 30, 2001 would also be addressed in the general rate case.

- 9           The Company requests that the Commission issue an order, on or before February 18, 2002, finding that the deferred costs of \$198.5 million, as of September 30, 2001, were prudently incurred and are recoverable by the Company. Such a ruling would resolve the uncertainty surrounding the deferral balance. The Company has included extensive exhibits and workpapers with this filing in an effort to expedite the audit process.

### **III. DIRECT EVIDENCE SUBMITTED**

- 10           Attached to this Petition is the prepared direct testimony sponsored by the Company's witnesses, all of which is incorporated into this Petition by reference. A brief summary of the testimony presented on behalf of the Company is as follows:

- 11           Mr. Jon Eliassen, Sr. Vice President and Chief Financial Officer, will explain the Company's need to remove the uncertainty related to the ultimate recovery of the deferred power cost balance as soon as possible, to improve the opportunity for the Company to renew credit lines and allow for the possible issuance of equity.

- 12           Mr. Kelly Norwood, Vice President and General Manager of Energy Resources, will explain the conditions that caused the Company to incur the increased power costs during the period July 2000 through September 2001 (deferral period), and the efforts by the Company to mitigate the costs. He will discuss the criteria previously adopted by this Commission related to the determination of the prudence of the costs, and why the Company believes that the

costs deferred by the Company were prudently incurred and should be recovered by the Company.

13        Mr. Bill Johnson, Senior Power Supply Analyst, will describe the power cost deferral mechanism, and will provide a breakdown of the factors causing the increase in power costs to the Company.

14        Mr. Don Falkner, Senior Rate Accountant, will explain the increased costs already absorbed by the Company, associated with the low hydroelectric conditions and high wholesale market prices, separate and apart from the deferred power costs. He will also address the appropriateness of the use of deferred accounting for the increased costs that have been incurred by the Company.

15        Mr. Ron McKenzie, Senior Rate Accountant, will address the accounting associated with the power cost deferrals, and the interest and retail revenue adjustment components of the deferral mechanism.

#### **IV. EXPEDITED ACTION REQUESTED**

16        The Company requests that the Commission set a pre-hearing conference as soon as possible to establish a procedural schedule that will allow a Commission order regarding the prudence and recoverability of the deferred costs by February 18, 2002. This time frame will eliminate the uncertainty related to the deferred costs during the important period when the Company is renegotiating the bank credit line and accounts receivable financing that both expire in May 2002, and would improve the opportunity to issue equity by mid-2002.

17 The Company proposes the following procedural schedule:

Avista Filing	November 13, 2001
Staff and Intervenor Testimony	January 7, 2002
Avista Rebuttal Testimony	January 18, 2002
Hearings	During the Week of Jan. 28 – Feb. 1, 2002
Commission Order	February 18, 2002

18 The Company is proposing a compressed schedule because rating agencies and lenders have expressed serious concerns regarding the uncertainty surrounding the recoverability of these costs. The recent downgrades in the Company's credit rating, together with continuing concerns by the rating agencies and lenders, make it necessary to resolve the uncertainty associated with the deferred costs as soon as possible, and not await the conclusion of the next general rate filing to improve the opportunity for the Company to renew its credit line and accounts receivable program and to allow for possible issuance of equity. The Company will be renegotiating these financing agreements beginning in March and April of 2002.

## **V. REQUEST FOR RELIEF**

19 The Company respectfully requests that the Commission issue an order on or before February 18, 2002, finding that the deferred costs of \$198.5 million as of September 30, 2001, were prudently incurred and are recoverable. The time period over which the costs would be recovered would be determined in the Company's upcoming general rate case.

Dated at Spokane, Washington this 9<sup>th</sup> day of November 2001.

AVISTA CORPORATION

BY \_\_\_\_\_

Kelly O. Norwood  
Vice President



## VERIFICATION

STATE OF WASHINGTON )  
 )  
County of Spokane )

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is the Vice President and General Manager of Energy Resources for Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

SIGNED AND SWORN to before me on this \_\_\_\_ day of November 2001, by  
Kelly O. Norwood.

NOTARY PUBLIC in and for the State of  
Washington, residing at Spokane.

Commission Expires: \_\_\_\_\_